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**ARIZONA CORPORATION COMMISSION**

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August 5, 2009

**Re: Proposed APS Settlement Agreement; Request for additional information. Docket No. E-01345A-08-0172.**

Dear Parties to the Docket:

I have read the final proposed Settlement Agreement in the Arizona Public Service Company ("APS") rate case, the direct testimony in the case, and the Company's response to my June 9<sup>th</sup> letter and would like to pose additional questions to be addressed by the Parties during the upcoming August 19 hearing.

**Impact on consumers during an economic downturn; increase in customer disconnections**

Testimony in the Settlement Agreement contains little, if any, direct discussion and analysis of the impact the proposed rate increase could have on consumers in the midst of the current economic downturn.<sup>1</sup> APS customers have been asked to bear the brunt of numerous rate increases this decade, all of which occurred in better economic times. This proposed rate increase comes when Arizona faces an 8.7 percent unemployment rate,<sup>2</sup> record home foreclosures, and an unprecedented slide in the financial markets. I would like the Parties to be prepared to discuss whether such a rate increase is in the public interest in light of the changed economic circumstances faced by Arizonans, and for APS to provide the Commission, in the form of an exhibit, the most current unemployment and foreclosure figures available from the Arizona Department of Economic Security and the state Department of Real Estate.

Additionally, the *Arizona Republic* recently reported that the number of customer disconnections by APS has skyrocketed in 2009, over the same period in 2008.<sup>3</sup> According to the *Republic*, APS cut off service to 21 percent more customers in June 2009 over June 2008. I would like the Parties to be prepared to discuss what impact the proposed rate increase would have on the number of disconnections going forward at the Company, and what the Company could do to mitigate this growing problem. I would also like APS to provide the Commission with an accounting of the number of disconnections for the months of June and July, each year, since 2004, along with a calculation of the percentage increase in total disconnections each year over the previous year for those months. Finally, please list for each of those years whether the

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<sup>1</sup> Cynthia Zwick of the Arizona Community Action Association provides testimony regarding the effects of rate increases on low-income customers, in support of the proposal in the Settlement to hold low-income customers harmless from the rate increase. No other Party mentions the impact of the rate increase on the average consumer.

<sup>2</sup> According to the Department of Commerce's Bureau of Labor Statistics, this is up significantly from 6.6 percent in December 2008 and 5.5 percent in June 2008.

<sup>3</sup> See *Arizona Republic*, July 28, 2009.

<http://www.azcentral.com/arizonarepublic/news/articles/2009/07/28/20090728biz-powerdisconnect0728.html>

Company was granted a base rate increase or an increase to its Purchase Power Adjustor Mechanism, and what those increases were in percentage terms. Please prepare this information in table format, as well as a graph depicting the company's base rate and Purchase Power Adjustor increase trajectories alongside its disconnection trends.

### **Fuel costs**

The Settlement Agreement proposes to boost the adjusted base cost of fuel by \$137.2 million; the original rate increase request by APS included a base fuel increase of \$169.9 million. The Settlement also would set the fuel related increase in base rates at \$11.2 million, where APS' original request was \$13.8 million, suggesting that the Settlement allowed for a significant amount of the Company's original base fuel cost request. Considering the recent decline in the cost of natural gas, I would like the Parties to explain why it is in the public interest to approve such a large increase to the Company's base fuel costs, which, unlike the fuel costs that pass through the Company's adjustor mechanism, remain imbedded in rates until the Company's next General Rate Case regardless of what the price of gas is on the wholesale market. Given the fact that the cost of gas has trended lower in 2009 and low prices are expected to remain "sticky" in the near and medium term<sup>4</sup>, and the fact that the Company, pursuant to the Settlement, would not return for another rate case until 2012, please state why this provision is fair to ratepayers. Specifically, please describe how the fuel cost allowances in the Settlement are based on the actual or projected cost of fuel.

The Settlement Agreement also calls for expediting the growing over-collection balance in the Company's Power Supply Adjustor mechanism to coincide with the effective date of an Order in this matter. However, this timetable would not make the credit back to consumers until late this year or early next year and I would like to know whether it would be in the public interest to credit that over-collection back to consumers immediately, given the unexpectedly low cost of natural gas,<sup>5</sup> and the distressed state of the economy. Please also be prepared to tell the Commission what the over-collected balance is as of the date of the hearing in this matter.

### **Depreciation expense on Palo Verde Nuclear Generating Station**

The Settlement calls for the Depreciation expense adjustment of \$34 million annually associated with the renewal of Palo Verde's license by the Nuclear Regulatory Commission ("NRC") to be credited to ratepayers in the Company's next General Rate Case, and requires that the decommissioning fund savings associated with such a license extension be passed through to ratepayers in the System Benefits Charge ("SBC"), simultaneous with the new depreciation rate. However, I am concerned that for these provisions to be considered a true ratepayer benefit under the Settlement Agreement, it would stand to reason that the new depreciation rates would need to be effective prior to the Company's next General Rate Case, which will likely be in

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<sup>4</sup> See American Gas Association, Natural Gas Market Indicators, June 30, 2009.

<sup>5</sup> As of the writing of this letter, the cost of natural gas on the NYMEX market was \$4.03 per MMBtu; Gas at El Paso – San Juan was \$3.20 per MMBtu.

2011<sup>6</sup>. If the NRC does not extend the Palo Verde license prior to the 2010 Test Year to be used by APS in its 2011 rate case, this would mean that the new depreciation rates and decommissioning fund savings would not be felt by ratepayers in the next rate case, and may not be fully recovered by ratepayers for many years to come. Please be prepared to describe a mechanism by which the Commission could be assured that the benefits associated with an NRC extension of the Palo Verde license would be passed on to ratepayers in the Company's next rate case. If such an assurance cannot be made, please be ready to state why you believe this provision should be considered by the Commission to be a ratepayer benefit in this case.

### **Rate case stay-out provision**

The proposed Settlement Agreement touts the stay-out provision, which precludes APS from filing a new rate case until 2011, as a benefit to ratepayers, but as I wrote in my June 9 letter, this declaration would appear to be undermined by statements made by the Company's CFO to investors in which he sought to calm their concerns regarding the stay-out provision by indicating that the rate schedule outlined in the Settlement Agreement is "not a whole lot different than we would have had anyway." The Company in its response to my letter continues to defend this provision as one which "materially restricts" the Company's ability to file rate cases. Please describe with clarity how this proposed Settlement Agreement materially limits the Company's ability to file rate cases, in light of the Company's CFO's statements to investors to the contrary, and in view of the calendar. How many more rate cases does APS believe it could file between 2010 and 2014 than two?

### **Equity infusion**

The terms of the Settlement Agreement call for APS to conduct an equity infusion of \$700 million between June 1, 2009 and December 31, 2014. These terms would appear to allow the Company the latitude to wait until the latter portion of 2014 to make an equity infusion. As a result, I would like the Parties to be prepared to state whether this is correct, and why the Commission should consider this a ratepayer benefit, when the infusion could come after the conclusion of the Company's *next* rate case, and when Commission Staff at one time believed an equity infusion was required in 2008,<sup>7</sup> a full 6 years before the equity infusion under discussion in this case would potentially be made. Additionally, I would like the Parties to be prepared to explain why the amount of \$700 million was chosen, and what impact it would have on the Company's current FFO to debt ratio. Please provide graphically a depiction of the Company's FFO to Debt ratio with the \$700 Million equity infusion if it were to be made in 2010, as well as

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<sup>6</sup> In fact, it seems almost certain that given the normal timeframes for NRC licensure extension, absent some kind of pro forma adjustment in the next rate case, any benefits associated with such an extension would be delayed until the Company's following rate case, perhaps sometime in the Year 2014 or 2015.

<sup>7</sup> Staff originally recommended that the Company be required to make a \$400 million equity infusion, but then retreated from that recommendation when the Company stated that it would be unlikely to be capable of accessing the capital markets at the time. The Commission ultimately left this issue to be addressed in the full rate case proceeding.

the FFO to Debt without the equity infusion but with the proposed Base Rate increase, and without either.

Finally, given the recent improvements in the financial markets, I would like APS to provide evidence that it is unable or would be unable in the near term to conduct an equity issuance of some amount.

### **Schedule 3**

The Company's response to my June 9 letter agrees that treating Schedule 3 funds as revenues could have negative consequences for ratepayers, but suggests that the Commission should not take those consequences into consideration when deciding this case because those impacts would occur "very far after the Settlement Agreement's termination of such revenue treatment in 2012." Please be prepared to detail with as much precision as possible what the negative consequences will be for ratepayers associated with treating Schedule 3 as revenue, and in what year those impacts would begin to be felt.

Additionally, I would like the Company to provide the Commission, in the form of an exhibit, a historical accounting of the number of individuals who took advantage of the 1,000 foot free line extension policy when it existed and where those line extensions were granted by county, during the years 2005 to 2009. Please also provide an accounting of the number of ratepayers who would be negatively impacted by restoring the 1,000 foot free line extension policy, in other words, the number of residential and business consumers who would see their rates increase if the Commission were to reverse its current policy by re-instating the 1,000 foot free line extension allowance. Additionally, I would like to know what residential rates would have been had the Commission eliminated the 1,000 foot extension sooner than we did; in other words, please provide an estimate of the residential rate between 2006 and 2009, the years following the last two General Rate Cases, assuming no free footage line extension allowance. Please provide this information as an exhibit in table format. Finally, I am attaching to this letter a preliminary listing compiled by my office of line extension policies that currently exist in other states. I would like the Parties to be prepared to discuss this survey, and, if they have conducted their own surveys of other states' line extension policies, to provide those for the record in the form of an exhibit.

### **Cap and trade cost recovery**

The Force Majeure section of the Settlement Agreement indicates that the Parties believe the Company should be permitted to break the "stay out" provision in the event that Congress passes a cap and trade program. Given that the U.S. House of Representatives recently did just that, and the legislation is pending before the Senate, please be ready to tell the Commission whether the Parties anticipate the Company returning to the Commission for a cap and trade-related rate increase prior to the 2012 stay out date.

### **Renewable Energy Standard and Feed-in tariff**

In my June 9 letter I asked the Parties to state whether it would be in the public interest to adopt the existing Renewable Energy Standard in this case, as well as whether it would be appropriate to set a higher bar for APS' renewable energy production in light of the fact that the Company anticipates exceeding the requirements of the RES. In its response to my letter, the Company appears to sidestep the question, restating only its "support" of the RES rules, and its agreement to abide by the renewable energy commitments contained within the Settlement Agreement.<sup>8</sup> Again, I would like the Parties to state clearly whether they would be willing to codify the RES rules as part of any resolution to this case, and cement the renewable energy commitments made in the Settlement Agreement by placing a higher renewable energy generation requirement, stated in Megawatt hours, including, but not limited to, a requirement of 8.813 million MWhs of renewable energy by 2025. Further, while APS stated in its letter in response to my June 9 inquiry that it believes a discussion of a pilot feed-in tariff is more appropriately placed in the Company's 2010 RES Implementation Plan docket, I would like such a dialogue to occur in this case, as well. Therefore, please be prepared to provide testimony on this topic, with specific reference to the questions I posed in my June 9 letter.

Additionally, it would appear from the testimony of the Parties that the specific renewable energy projects proposed to be built by APS, including the utility scale solar project, the wind facility, and the renewable energy transmission line, are discretionary, and may or may not actually come to fruition.<sup>9</sup> Please be prepared to state whether these projects cited as ratepayer benefits will be built, or whether they merely *may* be built, by the Company. If the Company is merely required to consider building the projects, please be prepared to explain why the Commission should consider these elements of the Settlement Agreement as concrete counterweights to the negative impacts of the Settlement Agreement.

### **Demand Response**

The Settlement Agreement addresses the Parties proposals regarding Demand Response at the Company, which focus entirely on a super peak time of use rate for residential customers. I would like to know how many Megawatts of Demand Response this proposed program is expected to achieve, and why the Parties have not proposed other Demand Response programs discussed in the APS Demand Response and Load Management Program Study filed with the Commission in June 2008.<sup>10</sup> Specifically, that study concluded that APS could achieve up to

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<sup>8</sup> The Settlement Agreement does not actually require APS to acquire 1.7 million MWhs of additional renewable energy by 2015, only to make its "best efforts" to do so.

<sup>9</sup> For instance, it appears that the provision calling for APS to construct a new transmission line to carry renewable energy would actually only require the Company to take a line through the permitting process, including the ACC's line siting process, but does not prescribe a timeframe for construction; the utility scale solar provision calls on the Company to file a "plan" for a solar project with the Commission, but does not appear to require the Company to complete the project.

<sup>10</sup> The study concluded that several DR programs would be potentially economic, including a Residential A/C Cycling, Residential Misc. Load Control, Thermal Energy Storage, and Scheduled Water Pumping programs. The study also identified Vehicle to Grid Technology as worthy of monitoring, and the Commission Ordered APS to file a pilot V2G program by April 1, 2010.

440 Megawatts of cost-effective Demand Response, based on a 2006 peak demand of 7,220 MW.<sup>11</sup> Moreover, the Federal Energy Regulatory Commission ("FERC") recently published a report entitled "A National Assessment of Demand Response Potential", a state-by-state study of the potential for energy savings associated with Demand Response. According to the FERC study, Arizona could achieve, under a full participation scenario, 6,200 Megawatts of Demand Response.

The Commission recently approved an Application by APS to conduct 125 Megawatts of Demand Response, which presumably leaves at least 300 Megawatts of Demand Response left undone.<sup>12</sup> Please state whether you believe it would be in the public interest to require APS, as part of this case, to conduct an additional 300 Megawatts of Demand Response, including requiring the Company to offer additional Demand Response programs to the customers identified in Section 19.1 of the proposed Settlement Agreement. I would also like the Company to be prepared to testify regarding the FERC Demand Response Study, in particular how much of the Demand Response potential identified in the study for Arizona would come from APS' service territory.

#### **Low-income assistance**

The proposed Settlement Agreement would hold low income customers harmless from the rate increase and offers a provision that would increase the Federal Poverty level for its existing bill assistance program from 150 percent of the Federal Poverty Income Guidelines to 200 percent of the Federal Poverty Guidelines, allowing for \$5 million in funding for this measure. Please inform the Commission how many customers APS estimates will be assisted by virtue of the expansion, and how many total customers the Company believes would be eligible, but may not be assisted at the suggested funding amount.

#### **Pension deferral**

The Settlement Agreement would allow the Company to defer a significant amount of annual pension and OPEB costs above the Test Year levels. In 2011 the Company could defer for future recovery \$13.5 million, or 50 percent more than the Test Year cost, whichever is lower, and in 2012 it could defer up to \$29 million above the Test Year amount. I would like the Parties to be prepared to tell the Commission what the rate impact will be in future years associated with these deferrals, what is causing the above Test Year pension costs, if the Company anticipates them, and in what year the Company expects to seek rate recovery of these amounts.

#### **Demand side management/energy efficiency**

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<sup>11</sup> APS' 2008 weather-normalized system peak demand was 7,277, suggesting that the amount of cost-effective DR available to APS could actually surpass 440 MWs.

<sup>12</sup> This would be assuming the numbers provided in the APS Demand Response and Load Management Program Study. It is unclear how many more Megawatts of Demand Response could be achieved assuming the scenario outlined in the FERC study.

In my June 9 letter, I requested the Parties to state whether they believe it would be appropriate to adopt the targets proposed by SWEEP and under consideration in the energy efficiency rulemaking docket as part of any resolution of this case. In its response, APS appears, as it did with my inquiry into the adoption of the RES in this case, to not answer my question, stating only that the Agreement would track SWEEP's energy efficiency proposals in the rulemaking docket until the Year 2012. I would like APS and the Settling Parties to be prepared to state during the hearing whether they would oppose including the SWEEP proposal regarding an energy efficiency standard as part of any Settlement of this case.

### **Property tax reduction and benefit to ratepayers**

As you know, the Arizona Legislature is considering a 2010 budget that includes a significant property tax reduction for businesses. I would like the Parties, in particular the Company, to tell the Commission, what the impact of this property tax reduction would be for APS, and whether the benefits of the property tax reductions for the Company would be passed through to ratepayers, either as part of this rate case Settlement, or pursuant to a previous Commission Order that required property tax reductions to accrue to the benefit of the Company's consumers.

### **ADOSH investigation**

The *Arizona Republic* newspaper recently reported that APS has undergone an accident investigation by the Arizona Division of Occupational Safety and Health ("ADOSH") related to an incident that occurred at the Saguaro Generating Station between Tucson and Phoenix in which one APS employee tragically died. I further understand that APS has been cited for five occupational safety violations related to the incident.

The Commission is tasked by the Constitution with ensuring the safety of both the customers and the employees of public service corporations.<sup>13</sup> Arizona Statute further clarifies the power of the Commission to require safety practices with specific reference to public service corporation employees.<sup>14</sup> I was not only concerned to learn that APS has been cited by ADOSH for workplace safety violations, but also that the Company chose not to inform the Commission of the existence of the ADOSH report for a full two months, until it became clear that the state's largest newspaper was preparing a news article about the ADOSH citations.

Several APS officials have informed me that APS intended to notify the Commission of the ADOSH report's findings after the Company completed its appeals with ADOSH, but before the report was referred to the Arizona Attorney General's Office. Regardless, I find it unacceptable that the Commission was notified in such a tardy manner of the ADOSH report. As a result of APS' failure to furnish the report in a more timely way, the Commission has lost some measure of opportunity to scrutinize the ADOSH findings, both as part of the ongoing APS rate case, or in another forum.

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<sup>13</sup> Ariz. Const., Art. 15, Sec. 3.

<sup>14</sup> A.R.S. § 40-336.

I would like the Company to provide the ADOSH report to all Commissioners,<sup>15</sup> and present it as an exhibit in this case, as well as be prepared in this case to describe what the Company has done and will do in the future to respond to the allegations contained in the report. Additionally, I would like APS to docket the results of, and any documentation related to, any internal APS investigation into the death that occurred at Saguaro Generating Station death, as well as all ADOSH citations against the Company and a description of their resolution, for the past five years. Finally, I would like Commission Staff to be prepared during testimony to state whether it believes the steps APS has taken to safeguard the safety of its employees in the wake of the Saguaro incident are adequate, whether other steps should be Ordered by the Commission, and whether APS has violated any Commission rule, regulation, or statute.

Thank you for your consideration of these matters. Your answers will aid me in my deliberations in this case.

Sincerely,



Kris Mayes  
Chairman

Cc: Commissioner Gary Pierce  
Commissioner Sandra Kennedy  
Commissioner Paul Newman  
Commissioner Bob Stump  
Ernest Johnson  
Steve Olea  
Janice Alward  
Lyn Farmer  
Michael Kearns  
Rebecca Wilder

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<sup>15</sup> I requested that APS provide the report to my Office via facsimile and email.

## LINE EXTENSION ALLOWANCE / 25 State Survey

### 1) Alabama

Alabama Power - Each utility shall have on file with the Commission an acceptable policy for extensions of its service where such extensions are in excess of the regular rates for service and for which the customer shall be required to pay all or part of the cost. Such policies shall be kept current by the utilities and shall be subject to review by the Commission. Such policies shall be the basis upon which a customer's cost for such extensions will be paid.

2) Alaska - Free allowance defined in each utility's tariff; reviewed tariffs of three companies, and they allowed new service credits per lot of \$1,000, \$3,000, and \$3,100.

### 3) Arkansas

- Entergy - The Extension Allowance for permanent single residential applications is \$1000. The Extension Allowance for a residential application in a planned development is \$250. Residential meters used by the Company for billing purposes are provided at no cost to the Applicant. The Applicant must advance the costs exceeding the Extension Allowance prior to the start of construction.

4) California - In order to foster competition, the Commission decided to delete the requirement for free footage for new line extensions. Each utility establishes its extension allowance, i.e., PG&E shows that a new customer receives an allowance towards his installation cost. The allowance is calculated as the Net (anticipated Distribution Component Revenue for a year divided by the Cost of the Service Factor (Rate of Return, Maintenance, overhead and other utility costs). The customer gets a quote from the utility and then can shop for an approved competing contractor. For residential line extensions, a fixed allowance is provided based on average residential consumption. The allowance is first applied towards the service extension (line from transformer to service panel) and the rest to the primary distribution line extension, if required.

### 5) Colorado –

- Xcel (Public Service Corporation Colorado) - \$720 allowance

### 6) Connecticut

- United Illuminating

b. Additional Customer Requirements. The Customer shall furnish, free of cost to the Company, upon its Premises the necessary space and provide, in conformity with the Company's specifications and subject to its approval, suitable foundations, supports, housing, equipment replacement access, equipment ventilation, grounding, wiring, conduit, and fittings for any transformers, switching arrangements, meters, and other apparatus required in connection with the supply of electricity.

c. Overhead Wires. One span of overhead wires will be installed at the Company's expense between the overhead wires in the street and the Customer's service entrance wires.

d. Additional Poles and Wires. Upon the Customer's request, and subject to Company approval, additional poles and wires will be furnished and installed on private property, in conformance with Company specifications. The additional poles and wires must be paid for by the Customer. The Company will assume ownership and maintenance of such additional poles and service wires on private property if given written permission by the owner of the property.

7) Delaware

- Delmarva Power - If the service exceeds 300 feet, the Applicant shall pay the Company the additional installed cost for the length greater than 300 feet, based on the average installed cost per foot for residential services installed during the preceding calendar year. Any such payments shall not be waived or refunded.

8) Florida

- Florida Power & Light --

(a) The CIAC for new or upgraded overhead facilities (CIACOH) shall be calculated as follows:

$$\text{CIACOH} = \text{Total estimated work order job cost of installing the facilities} - \text{Four years expected incremental base energy revenue} - \text{Four years expected incremental base demand revenue, if applicable}$$

9) Georgia

- Georgia Power

- The Company shall not be required to spend more than 3.5 times the estimated annual base rate revenue for providing residential service. Where the cost to serve does exceed this maximum expenditure, a payment in the amount of such excess will be obtained;

10) Hawaii

- Hawaii Electric Company

The power company will, at its expense, furnish and install a single span of service conductors from its pole or other aerial support, to the customer's approved point of attachment. The utility will connect to the service entrance conductors, provided such support is of a type acceptable to the utility and complies with all applicable ordinances and requirements.

11) Idaho - No laws or rules of general applicability regarding electric line extensions. Each utility has specific provisions in their tariffs. As a matter of policy, the Commission has been moving away from the free footage concept and towards giving customers an "allowance" for terminal facilities, which is credited against the total line extension cost.

12) Illinois - first 250 feet free

13) Indiana

- Indianapolis Power and Light

Standard Term Contracts - An extension of the Company's service facilities, including changes from single phase to three phase, will be made at the Company's expense if, in the judgment of the Company, the Revenue as computed by the Company exceeds the Cost of Installation as computed by the Company. If the Cost of Installation above exceeds the Revenue above, the Developer must pay the difference to the Company.

Short Term Contracts - There shall be an estimate made of the Actual Cost of the line extension. The Developer shall deposit the amount of the estimated Actual Cost with the Company prior to the commencement of the work.

14) Iowa - first 50 feet free

15) Kansas - First 75 feet free

16) Kentucky - Same as Tennessee

17) Louisiana –

- Entergy Louisiana

Extensions and/or additions will be made to serve Residential, Farm, Commercial and similar Customers, without cost to the applicant (or group of Applicants) at a cost to the Company of not more than 36 times the minimum monthly revenue that the Applicant (or group of Applicants) to be served will satisfactorily guarantee for a minimum period of thirty-six (36) months.

18) Nevada - No free footage allowance for electric line extensions. Instead utility calculates how much electricity the incoming customer would be using the first year of service and the dollar value of that service is deducted from the cost, i.e., if the line extension would cost \$1,000 and the customer would use at least that much electricity the first year, there would be no cost to customer. Conversely, if the line extension would cost \$1,500 and the customer is projected to use \$1,000 the first year, the customer would pay \$500.

19) New Mexico - No rules, laws, or tariffs implemented allowing a particular footage allowance by an electric utility at no charge to customer.

20) Oklahoma - 300 feet free

21) Oregon –

- PacificCorp – Residential Allowance of \$750

22) Tennessee - Defined in each utility's tariff; 800 ft. free footage allowance.

23) Utah –

- PacificCorp - The Extension Allowance for permanent single residential applications is \$1100. The Extension Allowance for a residential application in a planned development

where secondary voltage service is available at the lot line is \$350. The Applicant must advance the costs exceeding the Extension Allowance prior to the start of construction.

#### 24) Washington

##### - PacificCorp - Extension Allowances

The Extension Allowance for Residential applications is \$1050. The Extension Allowance for Residential applications in a Planned Development is \$250.

#### 25) Wyoming

- PacificCorp - The Extension Allowance for permanent single residential applications is \$1000. The Extension Allowance for a residential application in a planned development is \$250. Residential meters used by the Company for billing purposes are provided at no cost to the Applicant. The Applicant must advance the costs exceeding the Extension Allowance prior to the start of construction.